

Conduct of Business Rulebook (COBS)

*In this attachment underlining indicates new text and striking through indicates deleted text.



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17.9 [Currently not used]

17.10 Staking

Definitions

17.10.1 For the purposes of this section, the following definitions apply:

<u>Defined Term</u>	<u>Definition</u>
<u>Proof-of-Stake</u>	<u>Means the consensus mechanism that enables Staking Service Providers pledging such quantity of a Virtual Asset as may be required to participate in the confirmation of transactions involving such Virtual Asset, thereby earning Rewards.</u>
<u>Reward(s)</u>	<u>Means Staking returns including, but not limited to, block rewards and transaction fees that may be paid in the form of the Virtual Asset that has been Staked, earned from the activity of Staking.</u>
<u>Staking</u>	<u>Means the process whereby owners of a Virtual Asset contribute to the Proof-of-Stake consensus mechanism in order to create and validate new blocks in return for Rewards and “Stake” and “Staked” shall be read accordingly.</u>
<u>Staking Service Provider</u>	<u>Means a network participant in a distributed ledger or similar blockchain technology network that operates by Staking Virtual Assets including by pooling Virtual Assets belonging to third parties, that contributes to the Proof-of-Stake consensus mechanism by validating new blocks on the blockchain in return for Rewards shared with the owners of the Staked Virtual Assets.</u>

Application

17.10.2 This section applies to an Authorised Person providing a service whereby Virtual Assets belonging to a Client or transferred to the Authorised Person in accordance with a Title Transfer Collateral Agreement will be Staked, either upon the instruction of a Client or pursuant to a discretionary mandate given by a Client.

Restriction

17.10.3 An Authorised Person must not Stake the Virtual Assets of a Client by executing the instructions of the Client unless it holds a Financial Services Permission to carry on the Regulated Activity of Managing Assets or Providing Custody.

17.10.4 An Authorised Person must not Stake the Virtual Assets of a Client on a discretionary basis unless it holds a Financial Services Permission to carry on the Regulated Activity of Managing Assets.

17.10.5 An Authorised Person must not Stake a Virtual Asset that is not an Accepted Virtual Asset.

Requirements

17.10.6 Prior to Staking Virtual Assets belonging to a Client or transferred to the Authorised Person in accordance with a Title Transfer Collateral Agreement, an Authorised Person must have:

- (a) undertaken due diligence on the proposed Staking Service Provider and satisfied itself that the Staking Service Provider is suitable and it possesses the infrastructure and resources necessary for Staking;
- (b) satisfied itself that, where the Staking involves automated protocols or smart contracts, those protocols or contracts:
 - (i) permit the return of Virtual Assets to the Client or to the Authorised Person for safekeeping on behalf of the Client at the conclusion of the Staking period;
 - (ii) do not contain errors or material shortcomings; and
 - (iii) are subject to a program to identify errors in all smart contracts or similar programmatic arrangements;
- (c) entered into a written agreement with the Staking Service Provider:
 - (i) acknowledging that the Virtual Assets being Staked are not the property of the Staking Service Provider;
 - (ii) allowing monitoring of the criteria set out in (a) and (b); and
 - (iii) requiring the Staking Service Provider to inform the Authorised Person without delay in the event of an incident or breach adversely impacting the Staked Virtual Assets.

Non-Objection

17.10.7 Prior to conducting a Regulated Activity involving the Staking of Virtual Assets belonging to a Client or transferred to the Authorised Person in accordance with a Title Transfer Collateral Agreement, an Authorised Person must:

- (a) provide prior written notice to the Regulator of:
 - (i) the intention to offer such services; and

- (ii) where relevant, to engage a Staking Service Provider, in the form required, accompanied by all relevant information in relation to the proposed services; and
- (b) have received written non-objection from the Regulator.

Reporting

17.10.8 An Authorised Person providing Staking services to a Client must include within every statement provided to its Client under Rule 15.8.1 information identifying those Client Assets that have been Staked.